

A GUIDE TO BENEFIT SUB-FUND BUDGETING AND REPORTING PRACTICES CITY OF SEATTLE PERSONNEL DEPARTMENT

INTRODUCTION

The Personnel Division of the Executive Services Department, changed to Personnel Department (Personnel) in 2001, administers the following sub-funds.

- Industrial Insurance
- Healthcare
- Special Employment
- Unemployment Compensation
- Group Term Life Insurance

Personnel Department staff refer to these sub-funds as “the Special Funds” to differentiate them from the General Fund or cost allocation system revenues that provide the revenues that support the Department’s total operations. Each of these discrete funds is a sub-fund within the total General Fund. The purpose of each sub-fund is to segregate revenues and expenses for a specific type of employee benefit or specialized program related to the Personnel Department’s line of business. Each sub-fund works primarily as a pass through fund for revenues and expenses incurred and planned for in departmental budgets.

PURPOSE

The purpose of this Guide is to (1) report on budgeting and accounting practices that explain the cost and revenue information on which Personnel builds budgets for the Special Funds; (2) explain the relationship between the sub-funds and the Department’s program budget; and (3) develop reporting formats that allow the easy comparison of one year’s revenues and expenditures to the next. By following the reporting formats from year-to-year, any changes in administrative costs can be identified.

Current budgeting and reporting data provided to the City Council and Budget Office for the sub-funds is formatted at a very high, almost summary, level of information. The Finance Department’s Accounting sections have staff designated to work on the accounting and reporting functions related to the these sub-funds and can provide more detailed information upon request. During the 2000 budget process the City Council requested more information regarding these sub-funds and the Personnel Department is anxious to provide additional, useful, information in response to the City Councils interest.

In general, the “Administration” line item in each of the sub-fund budgets is a “roll up” of the budgets or portions of budgets for specific low organizational units in the Personnel Department and the Finance Department. The exception to this rule is the Group Term Life Fund which has no administrative costs charged to it. Revenues for the sub-funds are collected from department budgets and then disbursed to pay for the administrative services and program costs related to the purpose for which the sub-fund was created. (Example: The Unemployment Fund is funded through revenues collected from the departments through a monthly revolving journal transaction. The Unemployment Fund pays for unemployment claim costs billed to the City of Seattle by the State of Washington and for the administrative costs associated with managing the fund and claim cost administration.)

SPECIAL EMPLOYMENT PROGRAMS

The Special Employment Programs Sub-Fund (SEP) disburses funds to pay for temporary, intern, and work study program employment payroll and benefits and operating expenses for Special Employment Programs. It also collects reimbursements from City departments.

How Revenues Are Earned

City departments reimburse SEP for salaries and required benefit payments (e.g., FICA, industrial insurance, and unemployment). They also pay a 3.7 percent service fee on most reimbursements. The service fee was set over seven years ago and has not been critically evaluated since its creation.

How Expenses Are Budgeted

Personnel's Special Employment Programs Unit administers SEP. The expenses for the Unit are all under one organization number (A-6170) for budgeting and accounting purposes. There are 2.5 FTEs¹ (and their associated costs) in the Finance Division that provide dedicated payroll and accounting services for the Special Employment Program (Low Org. A-8216). The service fee charged (normally 3.7 percent) on payroll reimbursements is transferred to either the Personnel Department Operating Fund or the Finance Department Operating Fund to pay for these administrative costs. Because the Special Employment Program funds the Diversity Intern, MESA High School Intern and C-West Intern Program within Low Org A-6170's budget, the administrative line item within the Fund Budget is not totally administrative costs. It also includes costs for those direct service programs.

¹ Full-time equivalents. Example: Two full-time employees and one half-time employee equal 2.5 FTEs.

Revenues and Expenses

Exhibit 1 displays SEP's revenues and expenditures in enough detail to evaluate changes in revenues, program and administrative charges over time.² (See page 11.)

Understanding the Fund Balance

The Special Employment Program is designed to be self-supporting through the 3.7 percent service fee. If the Fund Balance decreases, total operating costs exceeded the service fees collected. If the Fund Balance increases, the service fees collected exceeded operating costs. The level of services SEP delivers to departments (placements) annually is demand driven. Fund Balance history is displayed below.

Figure 1.1 - Special Employment Programs Sub-Fund Balance History

Special Employment	1998	1999	2000 (Est.)
Beginning Fund Balance		695,883	1,369,913
Change in Fund Balance		674,030	169,000
Ending Fund Balance	695,883	1,369,913	1,538,913

The Fund Balance will increase again in 2000. The growth will not be as large as in the 1999 because the expenses for the Diversity Intern Program are being paid from the sub-fund and not reimbursed by the Departments. Displayed below is recap of the fund balance with reserves and designations.

Figure 1.2 - Special Employment Programs Sub-Fund Balance with Reserves and Designations

Special Employment	2000 (Est.)
Undesignated & Unreserved	\$1,238,913
Designated	0
Reserved	300,000
Total Fund Balance	\$1,538,913

The reserve was set up by ordinance over seven years ago when the City formally started providing temporary employees to a limited number of other governmental organizations, (e.g., Seattle School District, King County, and Sound Transit). The legal reserve was to fund the payroll "float" — the time between when the payroll is paid and the time reimbursements from the departments are received.

² Exhibits appear at the end of the report, at pages 11 and 12. The Exhibit fund balances will not reconcile with the figures in the report. The figures represent an estimated fund balance as of November 2000. The exhibits are a year end projection and are only meant to display future budgeting models. The actual 2000 change in fund balances will be reported in the 2002 budget cycle.

INDUSTRIAL INSURANCE

The Industrial Insurance Sub-Fund collects “monthly premiums” from City departments and disburses funds for worker’s compensation claims (medical payments and time loss for intermittent employees), state assessment fees, and medical monitoring and pre-employment physical examinations and drug testing costs. It also funds the Personnel Department’s Safety and Workers Compensation Units and a portion of Low Org. A-8216 in the Finance Department.

How Revenues Are Earned

Personnel charges each City department a premium which pays for the pooled costs of the Industrial Insurance Fund. The “pooled costs” consist of the operating budgets for the Workers Compensation and Safety Units in Personnel and a designated portion of Low Org. A-8216 in the Finance Department. In addition, the “pooled cost” includes the estimated annual cost of the State Assessment Fee, the Excess (Stop Loss) Insurance Premium, pre-employment physical and drug testing costs. If it would become necessary to increase the State required “claims reserve” in the Fund Balance, that additional cost would be recovered through the pooled cost premium charged to departments. The pooled costs are collected from the departments by the Finance Department based on monthly billings. In addition to the pooled costs, departments are also billed to reimburse actual claim costs and time loss for intermittent employees paid on behalf of their employees from the Industrial Insurance Sub-Fund. Time loss claims for regular employees are paid directly by departments through their payroll system and Personnel Services Budget.

How Expenses Are Budgeted

The Industrial Insurance Sub-Fund has the following expense types:

- Medical claims and time loss of intermittent employees.
- State assessment
- Medical monitoring and other direct programs
- Stop loss insurance
- Safety administration (A-6230)
- Worker’s Compensation administration (A-6250)
- Finance (Portions of A-8216)
- Overhead Expenses

Medical claims are budgeted based on actual historical claims data, estimates from an actuarial study performed every two years, and the CPI adjustment for allowed medical claims reimbursements.³ The state of Washington bills the City for the assessment amount and this annualized fee is estimated during the

³ CPI = Consumer Price Index, a measure of economic inflation.

budget process. The administrative cost budget is developed within the City's annual budget guidelines for cost-of-living adjustment (COLA) increases and inflationary allowances for operating and maintenance budget line items. The details of those budgeted costs are the Low Org. budget for A-6230 and A-6250.

Revenues and Expenses

Exhibit 2 displays Industrial Insurance revenues and expenditures in enough detail to note the financial impact of change in program levels and corresponding administrative charges. (See page 11.)

Understanding the Fund Balance

Increases and decreases in the Industrial Insurance Sub-Fund balance are the result of the difference between revenues collected and actual claims and pooled costs expensed. In the budget process, the Personnel Department is projecting revenues and expenditures two years in advance. Therefore, some Fund Balance data reported in the budget submittal are estimated projections and are so noted on the sub-fund budget pages submitted to the Budget Office and City Council. Historically, the Industrial Insurance Sub-Fund balance constitutes the State required claims reserve.

Figure 2.1 - Industrial Insurance Sub-Fund Balance History

Industrial Insurance	1998	1999	2000 (Est.)
Beginning Fund Balance		4,977,926	4,646,165
Change in Fund Balance		(331,761)	(5,000)
Ending Fund Balance	4,977,926	4,646,165	4,641,165

Personnel elected to "show proof" of the City's self-insurance reserve in the sub-fund. The State requires a twenty-five percent annual claim reserve level. The State required claim reserve is based on both medical claim costs and Department time loss expense. In 2000, the twenty-five percent reserve for medical and time loss claims will be approximately \$2,083,500. The remaining fund balance is excess premium payments. Through their rate setting process during the budget process, the Personnel Department attempts to insure that there will be an adequate Fund Balance in the sub-fund to meet the State requirements, all claims, and administrative expenses. They use excess premium payments in the Fund Balance as a hedge to minimize significant future changes in the pooled costs charged to departments.

Figure 2.2 - Industrial Insurance Sub-Fund Balance with Reserves and Designations

Industrial Insurance	2000 (Est.)
Undesignated & Unreserved	\$2,557,665
Designated	2,083,500
Reserved	0
Total Fund Balance	\$4,641,165

HEALTH CARE

The Healthcare Sub-Fund collects medical, dental, and vision premiums from City departments. It disburses funds for self-insured medical claim cost for the self-insured programs, Group Health premiums, dental and vision insurance premiums, third party administration and administrative charges incurred by the Personnel and Finance Departments.

How Revenues Are Earned

The Healthcare Sub-Fund collects revenues through per-employee premiums for insured plans and actuarial calculated amounts for self-insured plans. Departments on a monthly basis pay the premiums. In the past, revenues were also collected as a result of insurance premium refunds. This will not be a significant revenue source in 2000 and beyond because the city is now a self-insured employer for two of its three medical insurance programs.

How Expenses Are Budgeted

The Healthcare Sub-Fund has five types of expenses:

- Premiums
- Claims (self-insured medical)
- Third Party Administrative fees
- Benefits Unit Administration (Portion of A-6240)
- Finance Department (Portions of A-8216)
- Overhead and Distributed Expenses

Revenues and Expenses

Exhibit 3 displays the model for a Healthcare Sub-Fund budget presentation. (See page 12.) If all numbers were available, the revenue and expenditures would be in enough detail to note the financial impact of changes in program administrative charges. The exhibit will be available in August 2001 for the 2002 budget cycle.

Understanding the Fund Balance

Increases and decreases in the Healthcare Sub-Fund balance are related to the difference between revenues collected and claim costs, premiums and administrative costs paid from the Fund. The substantial fund balance is needed to cover legal reserve requirements.

Figure 3.1 - Healthcare Sub-Fund Balance History

Healthcare Insurance	1998	1999	2000 (Est.)
Beginning Fund Balance		4,263,355	4,515,581
Change in Fund Balance		252,226	(103,440)
Ending Fund Balance	4,263,355	4,515,581	4,412,141

\$4,412,144 is a rough estimate of the required legal reserve. The legal reserve mandated by the City amounts to two and one half months of medical claims (\$3,499,221). The City mandated by ordinance (Ordinance # 119762) a two and one half-month reserve target to insure the financial stability and reliability of its self- insured health program initiatives. The remaining portion of the reserve is for union employee healthcare premium stabilization, (\$912,923).

Figure 3.2 - Healthcare Sub-Fund Balance with Reserves and Designations

Healthcare Insurance	2000 (Est.)
Undesignated & Unreserved	\$ 0
Designated	0
Reserved	4,412,141
Total Fund Balance	\$4,412,141

UNEMPLOYMENT COMPENSATION

The City is a self-insured employer. The Unemployment Compensation Sub-Fund pays unemployment claims and portions of the operating budgets of the Benefits Unit in the Personnel Department (Low Org. A-6240) and Low Org. A-8216 in the Finance Department.

How Revenues Are Earned

Revenues are earned through premiums collected from City departments monthly. Personnel calculates the amount due for each department in the annual budget process based on an average of the prior three years unemployment claims data. Through the 2000 budget year, Personnel did not have accurate claims data for the prior three years. Now that they have accurate data, they will be able to more accurately determine department costs on the basis of historical claims. There is a substantial Fund Balance in the

Unemployment Compensation Sub-Fund due to lower actual claims payments than anticipated. In the 1999, 2000, 2001 and 2002 budgets the Personnel Department has set charges to departments to use this surplus fund balance to subsidize the monthly charge to the departments.

How Expenses Are Budgeted

The Unemployment Compensation Sub-Fund has four types of expenses:

- Claims
- Benefits Unit Administrative Costs (Portion of A-6240)
- Finance Department (Portions of A-8216)
- Overhead Expenses

Since the administrative costs are a “roll up” of expenses in other funds, they are reported as one expense item for budget purposes in this sub-fund’s budget. Estimated claim costs are budgeted based on past history, consultation with the City’s third party administrator, citywide budget projections and any anticipated employee reductions.

Revenues and Expenses

Exhibit 4 displays the model for an Unemployment Compensation Sub-Fund budget presentation. (See page 12.) If all numbers were available, the revenue and expenditures would be in enough detail to note the financial impact of changes in program administrative charges. The exhibit will be available in August 2001 for the 2002 budget cycle.

Understanding the Fund Balance

Increases and decreases in the Unemployment Compensation Sub-Fund balance are due to the difference between revenues collected in the fund and actual claim and administrative costs paid from the fund. The substantial fund balance is the result of unemployment claim costs being less than then estimated costs due to the regions economic prosperity and excellent employment market during the past four years.

Figure 4.1 – Unemployment Compensation Sub-Fund Balance History

Unemployment Compensation	1998	1999	2000 (Est.)
Beginning Fund Balance		1,880,082	1,719,627
Change in Fund Balance		(160,455)	(357,008)
Ending Fund Balance	1,880,082	1,719,627	1,362,619

In 1998, the Personnel Department, in consultation with its Budget Office, determined that it would be prudent financial management to maintain

(designate) approximately \$800,000 of the sub-fund balance. The purpose of the designation is to have the money to pay claims if claims are more than projected. The designation versus a supplemental budget appropriation is preferred at a time when the City's revenue/budget resources would be strained.

Figure 4.2 - Unemployment Sub-Fund Balance with Reserves and Designations

Unemployment Compensation	2000 (Est.)
Undesignated & Unreserved	\$ 562,619
Designated	800,000
Reserved	0
Total Fund Balance	\$1,362,619

GROUP TERM LIFE INSURANCE

Personnel's Benefits Unit administers the Group Term Life Insurance (Term Life) Sub-Fund. The sub-fund collects revenues and pays premiums for Group Term Life and Long-Term Disability insurance programs available to City employees. The revenues collected and disbursed through this sub-fund include City contributions for these employees' benefits as well as the employees' contributions for these insurance coverages collected through payroll deductions. This sub-fund is not charged for administrative services, because this is a relatively easy, pass through, fund to administer. Other revenue resources that support the Benefits Unit (Low Org. A-6240) fund the minimal administrative costs involved. The insurance company sets term life rates for the City and its employees. Refunds from rate adjustments and insurance company demutualization created the fund balances for the sub-fund. Current history is below.

Figure 5.1 Group Term Life Insurance Sub-Fund Balance History

Term Life	1998	1999	2000 (Est.)
Beginning Fund Balance		629,075	3,179,456
Change in Fund Balance		2,550,381	(107,701)
Ending Fund Balance	629,075	3,179,456	3,071,755

The City has reserved \$907,317 from the demutualization refund to pay union members their share once an agreement is reached. During the 2001 budget process \$852,797 of the fund balance was designated to pay employee benefit program administrative costs. (See Figure 5.2, next page.) A decision will be made in the 2002 budget process regarding the use of the remaining sub-fund balance.

Figure 5.2 Group Term Life Sub-Fund Balance with Reserves and Designations

Term Life	2000 (Est.)
Undesignated & Unreserved	\$1,311,641
Designated	852,797
Reserved	907,317
Total Fund Balance	\$3,071,755

EXHIBITS

EXHIBIT 1					
Special Employment	99	00 Projected	00 Budget	01 Budget	02 Budget
Revenues	22,907,268	23,661,338	23,240,839	26,712,089	29,383,298
SEP Payroll	21,756,946	22,799,551	22,216,100	25,777,166	28,334,906
Revenue less Payroll	1,150,322	861,787	1,024,739	934,923	1,048,392
Administrative Payroll	235,819	263,535	295,621	399,060	412,339
Supplies	8,537	5,612	1,345	735	752
Other Services & Charges	8,056	4,863	11,865	17,087	17,488
Personnel Overhead	46,313	46,308	46,304	81,047	82,993
ESD Overhead	24,669	24,168	24,165	26,797	27,719
ESD Internal Charges	27,369	25,581	27,172	29,789	31,328
ESD Finance	50,815	107,666	241,685	198,274	197,580
Intern Program	74,714	76,582	76,582	215,000	222,000
Total Expenses	476,293	554,314	724,739	967,789	992,199
Change in Fund Balance	674,030	173,455	300,000	(32,866)	56,193

EXHIBIT 2					
Industrial Insurance	99	00 Projected	00 Budget	01 Budget	02 Budget
Revenues	\$9,358,212	\$ 10,104,589	\$12,000,589	\$10,993,320	\$12,088,546
Claims	5,682,198	6,279,000	7,925,000	6,698,320	7,225,545
State Assessment	1,538,858	1,615,800	1,615,801	1,696,590	1,766,320
Other Direct Costs	539,853	575,405	561,078	632,946	707,801
Revenue Net of Claims	\$1,597,303	\$ 1,634,384	\$ 1,898,710	\$ 1,965,464	\$ 2,388,880
Administrative Payroll					
Safety	322,910	364,536	352,704	408,997	423,441
Workers Compensation	931,321	819,625	904,506	997,951	1,033,455
Supplies	23,620	10,856	18,978	20,642	21,079
Other Services & Charges	55,179	56,146	277,251	346,729	356,923
Personnel Overhead	186,968	186,852	186,862	339,730	348,217
ESD Overhead	99,588	97,524	97,519	112,329	116,302
ESD Internal Charges	107,844	120,012	114,481	99,432	104,201
ESD Finance	203,005	324,876	334,249	115,813	103,271
Total Expenses	\$1,930,436	\$ 1,655,551	\$ 2,286,550	\$ 2,441,623	\$ 2,506,889
Change in Fund Balance	\$ (331,761)	\$ (21,167)	\$ (387,840)	\$ (476,159)	\$ (118,009)

EXHIBIT 3					
Employee Healthcare	99	00 Projected	00 Budget	01 Budget	02 Budget
Revenues	48,643,531	51,041,895	48,289,309	55,457,202	58,775,214
Fund Balance Transfer				852,797	866,648
Claims/Premiums (*)	47,457,485	50,581,000	48,019,309	55,150,202	58,459,214
Medical Payments					
Third Party Administration					
EAP Premiums	301,331	239,267	270,000	307,000	316,000
Revenues Net of Benefits	884,715	700,162	-	852,797	866,648
Administrative Payroll					
Supplies					
Other Services & Charges					
Personnel Overhead					
ESD Overhead					
ESD Internal Charges					
ESD Finance					
Total Expenses	632,489	687,800	736,646	852,797	866,648
Change in Fund Balance	252,226	12,362	(736,646)	-	-

EXHIBIT 4					
Unemployment	1999	00 Projected	00 Budget	01 Budget	02 Budget
Revenues	1,439,219	1,320,992	1,320,992	1,440,000	1,440,000
Claims Paid	1,478,019	1,746,704	1,765,767	1,576,718	1,634,586
Net Revenues	(38,800)	(425,712)	(444,775)	(136,718)	(194,586)
Administrative Payroll					
Supplies					
Other Services & Charges					
Personnel Overhead					
ESD Overhead					
ESD Internal Charges					
ESD Finance					
Total Expenses	121,654	117,551	117,551	120,000	125,000
Change in Fund Balance	(160,454)	(308,161)	(327,224)	(16,718)	(69,586)